

## CalPERS Infrastructure Policy – Comments from General Partners

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<b>Comments from Alinda April 2008</b>	<p>Recommended changes to:</p> <p>Section II. Strategic Objectives G. Act as a responsible steward of Program investments through quality services, responsible labor and management practices and responsible environmental practices.</p> <p>We think the goal of “a commitment to environmental sustainability” described in Section II.G creates a particularly difficult standard for CalPERS and fund general partners to manage. For example, committing to sustainability in the context of a road, airport or other similar investment may be a strange thing – what does sustainability mean in the context of a road or other transportation project? We believe that proper environmental management of infrastructure projects is important on a number of levels – not merely good citizenship. The problem we see with “commitment to environmental sustainability” is the breadth of the statement with perceptible guidelines for its application. We have suggested modifications in the text to address this point.</p> <p>Section VII.A.5 Permitted Investments Energy resources (e.g.- hydrocarbons, gas, geothermal, wind-generated, water-generated, and nuclear; <i>transmission; and distribution</i>)</p>
<b>Comments from Carlyle Infrastructure Partners April 2008</b>	<p>Having reviewed the document I can say that we find no “show stoppers” in the proposed investment policy; subject of course to reading and understanding CalPERS’ investment policy for the Responsible Contractor Program (“RCP”) and the Hazardous Materials in Real Estate Investment policy.</p> <p>A couple of suggestions which you may wish to consider;</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Page 3 Section E 1 – it would be helpful to add at the end of the sentence the idea that CalPERS should consult with financial sponsors and others about any amendments to their RCP.</li> <li><input type="checkbox"/> Page 4 Section 3 – could we suggest that the words “principles of” be inserted in the third line between “the” and “CalPERS” so it would read .....consistent with the principles of CalPERS Responsible Contracting Policy.</li> <li><input type="checkbox"/> Page 8 A – we see Car Parks and Ferries as an interesting area of infrastructure investing. You may wish to expand the sectors to include these types of opportunities.</li> </ul>

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<p><b>Comments from CIM Group</b> <b>March 2008</b></p>	<p>Section II. H. <i>“Consider solely the interest of CalPERS’ participants and their beneficiaries in accordance with California State Law and the Prudent Expert Standard as defined in Section II of the System’s Investment Policy.”</i></p> <p>Section VI.E.1.Responsible Contractor Policy</p> <p>Staff shall secure written agreement from managers of any investment vehicle, to which the Responsible Contractor Program (“RCP”) applies, such that all contractors, investors, managers, consultants or other participants shall adhere <i>“to the RCP, subject at all times to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive risk-adjusted returns on CalPERS’ investments .</i></p> <p><i>The RCP seeks to ensure that the selection process for independent contractors and others will consider among other things, a demonstrated ability to provide reliable and high quality services (which may be evidenced by compliance with applicable statutes, payment of fair wages and benefits to employees, and relevant experience, reputation, dependability, and ability to provide cost-efficient services), thereby enhancing the value of the Program’s investments.”</i></p> <p>Section VI.E.2 Domestic Public Sector Jobs</p> <p>Staff shall secure a written agreement from the managers of any investment vehicle (as described herein) that states, substantially in all material respects, that “in circumstances where the investment vehicle is working with a state, local or municipal agency to establish PPP’s or to bid on public offers for the sale, lease or management of public assets, the investment vehicle shall endeavor in good faith to recognize the role and contribution of public employees to the development and operation of such assets, <i>“subject at all times to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive risk-adjusted returns on CalPERS’ investments.”</i> In particular, the investment vehicle shall make good faith efforts to minimize <i>(to the extent commercially reasonable)</i> any potentially adverse impacts on employees. These efforts may include working directly with public employees, government officials, or collective bargaining groups, as appropriate, in order to take such <i>reasonable</i> actions as may be <i>reasonably</i> within the investment vehicle’s control to mitigate such potentially adverse effects.”</p> <p>Section VI.E.4 Other Considerations</p> <p>If the manager of any investment vehicle does not agree to adopt Sections VI(E)(1) and (2) above and, if Staff deems it appropriate based on all the circumstances, including the intent of this Policy as well as the investment merits of the investment vehicle, Staff may recommend the potential investment to the Investment Committee and the Committee shall make a determination whether or not to invest in such investment vehicle. <i>[We genuinely believe that this language is ambiguous and difficult to interpret.]</i></p>

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<b>Comments from CIM Group</b> <b>March 2008</b> <b>continued</b>	<p>Section VI.M – Renewable Energy and Sustainability</p> <p>CalPERS encourages the prudent use of sustainable development methods and operational practices when reasonable and economically feasible. <i>Subject at all times to fiduciary principles concerning duties of loyalty and prudence, both of which further require competitive risk-adjusted returns on CalPERS' investments</i>, consideration shall be given to (a) the use of renewable energy technologies, recycled and renewable building materials, air and water conservation technologies and practices, and efficient waste, recycle and disposal technology and practices and (b) the environmental sustainability of investments including but not limited to energy efficiency, fuel economy, alternative energy generation and distribution impacts.</p>
<b>Comments from JPMorgan</b> <b>April 2008</b>	<p>Our principal observation is that the Policy has been well thought through, is well written (and appears to be consistent in general- with CalPERS' other investment policies). Our specific comments follow:</p> <p>IV. A. The Performance Objective of "5% over the inflation rate as measured by US CPI" appears to be consistent with the performance objectives that we have observed are used by many investors around the world - which generally range from 4% to 5% over CPI. We are not sufficiently familiar with CalPERS' performance objectives for other asset classes (eg. equity, nominal fixed income) or investment strategies (eg. private equity, real estate, TIPS) to know whether this performance objective is consistent with the range of risk/return expectations for other investment strategies, or whether it is consistent with CalPERS' forward looking expectations for performance and risk for the other investment strategies that CalPERS pursues.</p> <p>VII.A. We wondered whether the fact that clean energy was included, while contracted power generation (as opposed to merchant power generation) was excluded from, the examples listed after "3. "Utilities" , meant that contracted power generated by natural gas and/or coal was not intended to be included in Infrastructure, but in other investment strategies - such as private equity, for example. While many consider the risk and return characteristics of merchant power generation to be more akin to private equity than infrastructure, many consider the risk and return characteristics of contracted power generation to be more akin to infrastructure. Any way we were wondering whether the wording which implied the inclusion of clean energy (whether merchant or contracted), and the exclusion of gas and/or coal fired power generation (whether merchant or contracted) was intentional. If not, perhaps some additions or edits to the examples would help clarify the matter.</p>

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<b>Comments from Macquarie April 2008</b>	<p>Regarding our general comments, we would recommend that greater consideration be given to the management of the underlying companies in which investments will be made -- either directly or via investment pools. Many infrastructure assets can be highly complicated assets to operate. Oversight of the daily management of these assets is often critical to the long term viability and return profile of these investments and we would recommend that section VI.B, J, and K should all include a reference to the proper operational management of the operating companies which comprise your investments. In addition, we would recommend that management experience be listed under VII.C as a consideration for selecting an investment as well as in section VIII.A.2 under evaluation criteria.</p> <p>The other general comment we would make is to encourage you to ensure that the Responsible Contractor Policy which is referred to be appropriate to "infrastructure investing". When we originally reviewed RCPs when developing our policy, it was clear that most were developed with real estate in mind where the contract sizes were significantly smaller than those made in the infrastructure space and where most managers had a direct ownership and management of the asset. Often when investing in infrastructure, the investment manager may not have direct control over the contracts let, or the concession agreement may restrict a manager's role when tendering contracts.</p> <p>We would also make the below specific comments in page order:</p> <p>Page 1, sub-section II.C - shall accomplish a "Hedge against inflation" may be a bit strict. Something like "Offer inflation-linked characteristics" may be more appropriate.</p> <p>Page 5, sub-section VI.F.5 - "short term monitoring benchmark" does not seem to be defined anywhere. Our assumption is that this refers to IV.A which seems to be a longer term benchmark.</p> <p>Page 9, sub-section VII.B.7 - "A list of prohibited (?) are outlined ..." is missing a word/phrase. Our assumption is that it should read "prohibited investments".</p> <p>Page 10, sub-section VII.C - doesn't include manager "track record" in the list of selection criteria. However, this is effectively dealt with in sub-section VIII.A (page 11) which refers to "relevant experience".</p> <p>Page 14, sub-section VIII.B.2 - direct investment evaluation criteria appear overly generic and "corporate". We recommend that it include reference in the case of PPPs/privatization to infrastructure issues such as the Concession Agreement (including term of the Concession), Construction matters (if relevant) and project risk allocation. Issues such as "relative competitive position" are less relevant (per VIII.B.2.b). Note that financing is effectively dealt with by VIII.B.1.b ("appropriately capitalized").</p>

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<b>Comments from Macquarie April 2008 continued</b>	<p>Concern that VI.E. 1 (c) + (d) and VI.E.3 may imply that managers do not need to accept a Responsible Contractor Policy as there is a provision to award an investment mandate to such a manager. Perhaps strengthening the language to stipulate that managers who have implemented an RCP will be given strong preference.</p> <p>VII.A regarding infrastructure sectors is quite narrow. There are ports, for example, which do not display the attributes of infrastructure as they are in an extremely competitive market, while landfills can often be considered core infrastructure, particularly when they have a market dominant position. Perhaps it would be useful to state that the intent is to invest in assets which demonstrate the key economic attributes of infrastructure would further refine this section. Also, a "and other sectors" statement would provide the flexibility you may need going forward.</p> <p>VII.H stipulates debt caps for the investments. It is very unusual to have a debt cap across the portfolio of 80% - this is extremely high. Our current portfolio of over 100 assets is only at 56%. While this level of debt may be appropriate for a single asset, we're concerned that such a high debt level across all assets may be too risky.</p> <p>VIII.A.2 and VIII.B.2 both should stipulate that one element of "Evaluation Criteria" will be to ensure that there is a comprehensive business plan articulated and that such plan is achievable and capable of support. This is one of the critical reviews which we always ensure when considering an investment.</p>